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SIPDIS

SENSITIVE

TREASURY FOR OASIA - CHRIS PLANTIER

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SUBJECT: Visa Data Tracks Turkey's Economic Recovery

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SENSITIVE BUT UNCLASSIFIED.

1. (SBU) Summary. Contrary to popular wisdom, non-immigrant visa data shows that the recovery from the 2000-1 economic crisis is having a real impact on Turkey's middle and lower classes. This is confirmed by other signs of growing household consumption, but income disparities, unemployment, and extreme poverty remain pervasive and deep-rooted. The politics of poverty, middle class aspirations, and the unrecorded economy create pressures for populist policies that are only offset by the external discipline provided by the IMF and the EU accession process. End Summary.

Visa Refusals Down, Economy Up?

2. (SBU) An analysis of visa interview data offers insight into one of the most vexing questions facing analysts of the Turkish economy: have the benefits of the strong economic recovery that has seen average income increase by 70% in dollar terms since 2002 (from \$2,600 to \$4,400 per capita) been "trickling down" to ordinary people? The answer to this question has implications not only for economic policy, but sheds light on the political pressures on Prime Minister Erdogan's government as it moves forward (or not) in implementing politically controversial economic and political reforms. Although our model may be simple and other factors are no doubt at play, declining visa refusal rates suggest that the benefits of growth are indeed increasingly being perceived on "Main Street."

3. (SBU) Conventional wisdom holds that economic growth since 2002 has mostly benefited the wealthy business and financial class that is mainly located in Istanbul. ConGen officers are indeed impressed by opulent displays of new wealth on display in Turkey's business capital. Conversely, Consulate Adana observes little improvement in the southeast region's grueling poverty. The city of Ankara, with its large share of bureaucrats and professionals, is not representative of the rest of the country. However, cutbacks in government spending and investment that followed the financial crisis may have had a relatively greater impact in the capital than elsewhere, particularly on the middle classes.

The Theory: Travel Correlates with Economy

4. (SBU) Our visa analysis postulated that a desire to emigrate in search of a better life is one reflection of a household's economic health. When incomes and living standards deteriorate, relatively more people decide to attempt to immigrate to countries - particularly the U.S. - with perceived greater economic opportunity. As most such intending immigrants have no hope of obtaining immigrant visas, many seek NIVs: most often, "B" tourist visas or "F" student visas (particularly for language study programs, acceptance to which is virtually automatic). At the same time, declining incomes make otherwise eligible individuals less likely to travel for business or tourism. Both factors should lead to an increase in NIV rejection rates. Similarly, as economic opportunities at home improve and incomes rise, relatively fewer non-qualified applicants seek NIVs, and rejection rates should decline. Since most of the changes in rejection rates are due to changes in numbers of applicants from the middle and lower classes, an analysis of trends in rejection rates can supply clues as to how deeply an economic recession or recovery has penetrated the population.

The Analysis: Issuances Track Recovery

15. (SBU) An analysis of NIV rejection rates in Ankara and Istanbul clearly shows the impact of the financial crisis. In the first quarter of 2000 -- before the crisis hit -- the overall rejection rate was 11.5%. At the height of the crisis in the third quarter of 2001, the rejection rate peaked at 34.4%. As the recovery kicked in, a downward trend became clear, so that by the fourth quarter of 2004 the rejection rate had fallen to 18.3%, much closer to but still in excess of the pre-crisis level. (A more rigorous regression analysis of quarterly rejection rates bears out the presence of a trend: second order polynomial analysis showed that the downward trend in rejection rates began sometime between the first quarter of 2003 (55% confidence level) and third quarter of 2003 (96% confidence level). To control for changes in adjudicating officers and policies, an analysis of a single Ankara-based Consular Assistant who started work in 2002 quarter 2 produced similar results.)

Other Data Confirm Improving Lifestyles

16. (SBU) The recovery in living standards suggested by the visa analysis is supported by other signs that life is improving, at least for the middle class. Household consumption is growing strongly. New car sales increased from 175,000 in 2002 to 754,000 in 2004. Sales of consumer durables, like refrigerators and washing machines, increased by 83% in the year ending in November 2004. Sales of consumer electronics, such as televisions, grew by 29% in 2004, versus only 0.1% the previous year. There are also indications of more equality in income distribution, at least as measured by the Gini coefficient, which declined by 14.3% from 0.49 in 1994 to 0.42 in 2003 according to the State Institute of Statistics. This continues a longer term declining trend in the Gini coefficient, which peaked at 0.56 in 1968.

But Poverty Remains Deep, Widespread

17. (SBU) Nevertheless, the depth of the recovery and its geographical coverage remain difficult to determine. The unemployment rate remained stuck at 10.3% in 2004, just below its 10.6% 2002 post-crisis high. Since the crisis, new jobs have not been created fast enough to keep up with growth in the population and expanding labor force participation. In addition, there is widespread under-employment of individuals working in jobs for which they are over-qualified. Extreme poverty appears deep-rooted and pervasive in rural areas and in large parts of urban centers (see reftel for a view of urban poverty in Ankara). For the first time ever, the Turkish government published official poverty data in April 2004. Using a 2002 household survey, the report found that 1.4% of the population does not have enough to eat, while 27% (18.4 million people) lives below a poverty line equivalent to household income of \$206 per month for a family of four. The numbers of the poor are evenly split between urban and rural areas, although a higher share of the rural population (35%) falls below the poverty line. The State Statistical Institute has promised to update its study using 2003 data, from which it should be possible to make a preliminary estimate of post-crisis trends.

Comment

18. (SBU) As our analysis of visa data suggests, there have been clear improvements in the living conditions of average people since the financial crisis; not only the rich have benefited from low inflation and strong growth. In fact, perhaps the most important contribution to the well-being of lower and middle income groups has been success in eliminating run-away inflation, which in Turkey, like everywhere else, hurts poor more than the rich or middle classes. At the same time, the unregistered "informal economy" (which some say includes 60% of actual GDP) stunts growth, inhibits job-creating entrepreneurship, and denies the government financing needed for social programs. Indeed poorly funded, ad hoc social programs often have unintended negative social and environmental consequences -- such as the free distribution of dirty soft coal that clouds the skies of Ankara, Istanbul, Gaziantep and other large cities.

19. (SBU) Regional and other gaps seem slow in closing -- perhaps too slow for the political traffic to bear. There is strong pressure on politicians to embrace populist measures (such as the currently debated regional investment incentive scheme) that perversely threaten to undermine the sound economic policies that under gird the recovery. Persistent poverty and unemployment are also making it more difficult for the government to move forward on privatization and other structural reforms (such as in the agricultural sector) that will have large short-term employment and social costs. To overcome such reform weariness -- which only grows as the overall situation improves and disparities become more evident -- the external discipline provided by the IMF and EU "policy anchors" is critical to ensure continued reforms and good economic policies. The government will also have to be more creative in addressing impediments to job growth and in finding resources to effective social support programs.

Table: NIV Overall Refusal Rates

2000 Q1	11.5%
2000 Q2	13.4%
2000 Q3	15.8%
2000 Q4	15.7%
2001 Q1	18.4%
2001 Q2	25.5%
2001 Q3	34.4%
2001 Q4	24.8%
2002 Q1	20.3%
2002 Q2	20.8%
2002 Q3	25.9%
2002 Q4	29.0%
2003 Q1	21.1%
2003 Q2	22.6%
2003 Q3	29.1%
2003 Q4	25.9%
2004 Q1	22.0%
2004 Q2	22.2%
2004 Q3	20.3%
2004 Q4	18.3%

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